

Message Text

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EUR/CE:RCASAGRANDE

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FM SECSTATE WASHDC

TO AMEMBASSY CAIRO IMMEDIATE

C O N F I D E N T I A L STATE 052899

EXDIS FOR MAESTRONE

E.O. 11652: GDS

TAGS: EGEN, EAID, EG

SUBJECT: EGYPTIAN BALANCE OF PAYMENTS RELIEF

REF: CAIRO 2670

1. UNDER SECRETARY ROBINSON PROBABLY WILL HAVE OPPORTUNITY TO VISIT CHANCELLOR SCHMIDT IN BONN AND FOREIGN MINISTER SAUVAGNARGUES IN PARIS MIDDLE OF NEXT WEEK. HE WILL BEGIN TO CARRY OUT PROMISE MADE TO GOE LAST FRIDAY PROVIDED GOE HAS BY THEN TAKEN INITIATIVE IN REQUESTING ADDITIONAL BALANCE OF PAYMENTS SUPPORT FROM THOSE GOVERNMENTS. SIMILARLY, UNDER SECRETARY EXPECTS OPPORTUNITY EARLY THE FOLLOWING WEEK IN WASHINGTON TO FOLLOW-UP EGYPT'S REQUEST TO THE GOVERNMENT OF IRAN. HE WILL MAKE GENERAL APPROACH ON ASSUMPTION THAT GOE HAS MADE A DETAILED PRESENTATION AT LEAST TO AMBASSADORS IN CAIRO OF THOSE THREE COUNTRIES. IT WOULD, OF COURSE, BE PREFERABLE IF GOE ALSO HAD MADE
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DETAILED PRESENTATION IN THOSE THREE CAPITALS PRIOR TO

ROBINSON FOLLOW-UP BUT WE RECOGNIZE TIME LIMITATIONS MAY PRECLUDE THIS.

2. REQUEST EMBASSY URGENTLY ADVISE RELEVANT MINISTERS OF SCHEDULE OUTLINED PARAGRAPH ONE AND REQUEST CONFIRMATION WHEN GOE PRESENTATIONS HAVE BEEN MADE TO EACH AMBASSADOR

AND/OR GOVERNMENT. FYI: ROBINSON PROBABLY WILL DEPART FOR BONN EVENING OF MARCH 9. END FYI.

3. AFTER REVIEWING DISCUSSIONS WITH SHAFEI AND ABU-ISMAIL AND DATA THEY PRESENTED, WE BELIEVE GOE PRESENTATION TO PROSPECTIVE NON-ARAB DONORS SHOULD STRESS:

(A) POLICY MEASURES DESIGNED TO REDUCE EGYPT'S DEPENDENCE ON FOREIGN FINANCING OF CURRENT, NON-PROJECT IMPORTS, BUILD TOWARD SOUND DEVELOPMENT OF KEY SECTORS OF EGYPTIAN ECONOMY, AND ASSURE REALIZATION OF POSITIVE ELEMENTS IN EGYPT'S ECONOMIC FUTURE (OIL, TOURISM, SUEZ-SUMED TOLLS, AND UTILIZATION OF EDUCATED MANPOWER IN INDUSTRIAL PROJECTS);

(B) IMPORTANCE OF MAINTAINING SENSE OF PROGRESS AMONG EGYPTIAN PEOPLE WHILE PURSUING EFFORTS TOWARD PEACE IN THE MIDDLE EAST;

(C) SIMPLIFIED OUTLINE OF 1976 CURRENT ACCOUNT DEFICIT AND POSSIBLE MEANS OF FINANCING DEFICIT, AND IMPORTANCE OF PROSPECTIVE DONOR GOVERNMENT PARTICIPATION.

4. SECTION A OF PRESENTATION OUTLINED ABOVE SHOULD INCLUDE WHATEVER GOE IS ABLE TO SAY NOW REGARDING RELATIONS WITH IMF AND IBRD. THIS PART OF PRESENTATION, WE SUGGEST, SHOULD SUMMARIZE ECONOMIC REFORMS ALREADY ADOPTED PER MINISTRY OF ECONOMY PAPER PRESENTED TO ROBINSON PARTY. IT SHOULD STATE AS PLAINLY AS POSSIBLE GOE COMMITMENT TO HALT ESCALATION OF IMPORTS, CARRY OUT THESE NEWLY ADOPTED ECONOMIC REFORMS, NEGOTIATE ADDITIONAL MEASURES WITH IMF AND WIN IMF AND IBRD APPROVAL OF ITS SELF-HELP EFFORTS IN FORM OF IMF AND IBRD NON-CONFIDENTIAL

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PROJECT FINANCING. PRESENTATION ALSO SHOULD EXPRESS GOE COMMITMENT TO REDUCTION OF EXTERNAL SHORT-TERM DEBT BURDEN AS REFLECTED IN 1975 RESULTS AND IN PLANS FOR EITHER FURTHER DECLINE IN USE OF SHORT-TERM FINANCING OR SUBSTANTIAL REFINANCING ON MEDIUM TERMS.

5. SECTION C OF PRESENTATION SHOULD GIVE CURRENT INFORMATION ON PLEDGES OF ARAB AID FOR EGYPTIAN CURRENT

ACCOUNT FINANCING INCLUDING RESULTS OF RECENT SADAT TOUR AND STATUS OF ONGOING KHARTOUM GRANTS. WHILE THERE ARE MANY WAYS TO PRESENT BALANCE OF PAYMENTS PROJECTIONS AND FINANCING APPROACHES, WE SUGGEST GOE CONFINE PROJECTIONS TO NON-PROJECT FLOWS AND REQUIREMENTS, I.E., EXCLUDE CAPITAL GOODS IMPORTS AND CAPITAL PROJECT FINANCING FROM BOTH SIDES OF LEDGER. GOE PRESENTATION WOULD NOTE THAT

THIS STEP PLUS SUBSTANTIAL DEFERRAL OF DEBT SERVICE TO BILATERAL AGREEMENT COUNTRIES WOULD RESULT IN A REMAINING GROSS CURRENT ACCOUNT DEFICIT OF ABOUT \$1,500 MILLION AFTER EXISTING US AND ARAB COMMITMENTS. AGAINST THIS GROSS DEFICIT (PER DISCUSSION WITH SHAFEL), GOE WOULD APPLY UPTO \$500 MILLION LARGER USE OF SHORT-TERM FOREIGN BANK FACILITIES THAN WAS PLANNED IN PRESENT FOREIGN EXCHANGE BUDGET; THIS STEP COULD REDUCE NET DEFICIT TO ABOUT \$1,000 MILLION. AT THE SAME TIME EGYPT WOULD SEEK TO OBTAIN MEDIUM TERM REFINANCING BY COMMERCIAL BANKS OF AT LEAST \$250 MILLION, PREFERABLY MORE, OF SHORT-TERM FOREIGN DEBT, RELYING ON EITHER THIRD-COUNTRY GUARANTY OR MORTGAGE OF FOREIGN EXCHANGE EARNINGS FROM SUEZ CANAL, IF NECESSARY. FINANCING OF REMAINING DEFICIT OF ABOUT \$750 MILLION, AND INDEED SUCCESS IN COMMERCIAL BANK REFINANCING, DEPENDS ON GOE'S WINNING IMF APPROVAL OF DRAWINGS ON ITS FACILITIES IN AMOUNT OF ABOUT \$100 MILLION AND IBRD PROGRAM LOAN OF SOMEWHAT LESSER AMOUNT. REMAINING DEFICIT REQUIRES (A) RAISING ADDITIONAL AID FROM INTERESTED OECD COUNTRIES AND IRAN AND GRAIN LOAN FROM EUROPEAN COMMUNITY AS AN ENTITY; (B) FURTHER GOE EFFORTS THIS SUMMER TO OBTAIN ADDITIONAL GRANTS AND LOANS FROM ARAB COUNTRIES; AND, (C) CURTAILMENT (AT SOME POLITICAL RISKS) OF EXCHANGE ALLOCATIONS FOR IMPORT OF CONSUMER AND INTERMEDIATE GOODS.

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6. AMOUNTS TO BE REQUESTED BY GOE OF OECD COUNTRIES AND IRAN SHOULD BE REALISTIC IN LIGHT OF 1975 EXPERIENCE AND SHORT TIME SINCE LAST ROUND OF AID DECISIONS BY THESE COUNTRIES. THIS IMPLIES LIMIT OF ABOUT \$50 MILLION EACH FROM GERMANY AND JAPAN, LESSER AMOUNTS FROM EC, FRANCE AND UK. LARGER AMOUNT COULD BE ASKED OF IRAN WITH RECOGNITION OF ITS CURRENT CASH PROBLEM, LEADING TO SUGGESTION OF POSSIBLE ALTERNATIVE OF IRANIAN GOVERNMENT GUARANTY OF REFINANCINGS BY FOREIGN BANKS IN LIEU OF A DIRECT GRANT OR LOAN.

7. ADVISE WHETHER EMBASSY AND GOE MINISTERS CONCERNED INTEND TO MAKE REQUESTS ALONG THE FOREGOING LINES AND AMOUNTS OF REQUESTS. KISSINGER

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